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Message Text

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PAGE 01 LISBON 08193 251718Z

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ACTION SS-25

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C O N F I D E N T I A L LISBON 8193

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E.O. 11652: XGDS
TAGS: PO, EAID, EFIN
SUBJECT: LIQUIDITY LOAN FOR PORTUGAL

REF: STATE 288318

1. LOCAL NEWS TODAY FEATURES YEO COMMENTS ON IMF INVOLVEMENT IN MONITORING PROPOSED USG LOAN TO PORTUGAL. THIS OF COURSE IS THE MOST POLITICALLY SENSITIVE ASPECT OF THE PROGRAM, AND I HAVE NOT BEEN AUTHORIZED TO DISCUSS IT WITH GOP.

2. NEWS ACCOUNTS ARE TAKEN FROM NOV 24 INTERVIEW BY TREASURY UNDERSECRETARY YEO TO NEW YORK TIMES WHICH CONTAINS A NUMBER OF OTHER POINTS I ALSO HAVE NOT BEEN AUTHORIZED TO DISCUSS WITH GOP.

3. THE PAPERS SIGNED BY THE PRESIDENT ENVISAGED THAT TIMING AND MANNER OF PUBLIC ANNOUNCEMENT WOULD BE LEFT TO PRIME MINISTER SOARES. THIS WAS DONE BECAUSE WE RECOGNIZED ACUTE POLITICAL SENSITIVITY OF PROGRAM AND WISHED TO SUPPORT GOP, RATHER THAN HEIGHTEN ITS VULNERABILITY TO COMMUNIST ATTACKS. WE SHOULD BEAR IN MIND THAT LOAN MUST BE APPROVED BY NATIONAL ASSEMBLY AND THAT THIS PROSPECT IS WEIGHING HEAVILY ON SOARES'S MIND. IN ADDITION, OF COURSE, THERE IS A QUESTION OF CONFIDENCE AND GOOD FAITH BETWEEN GOVERNMENTS.

4. AS MATTERS STAND I WAS NOT AUTHORIZED TO DISCUSS WITH SOARES
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MOST OF THE DETAILS IN LEAKED ARTICLE THREE WEEKS AFTER I HAD

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RETURNED FROM WASHINGTON CONSULTATIONS. THESE DETAILS WERE SUBSEQUENTLY CONFIRMED IN NOV 24 NEW YORK TIMES ARTICLE, AND THE CRITICAL ISSUE OF IMF INVOLVEMENT WAS RAISED.

5. LEAVING ASIDE THE PROBLEMS THIS HAS CREATED FOR ME, IT IS IMPORTANT THAT THE PROPOSED TREASURY TEAM NOT ASSUME GOL HAS ACCEPTED OUR PROGRAM IN ITS ENTIRETY. NO FORMAL NEGOTIATIONS HAVE TAKEN PLACE, AND WE KNOW FROM INFORMAL GOP RESPONSES TO LEAKED ARTICLES AND GOP WASHINGTON EMBASSY CABLES THAT THEY HAVE SOME PROBLEMS WITH GOLD SWAP. WE HOPE THESE WILL PROVE TO BE SOLUBLE BUT EMBASSY SHOULD BE GIVEN SOME NEGOTIATING FLEXIBILITY.

6. IN LIGHT OF SEQUENCE DESCRIBED ABOVE, TREASURY TEAM SHOULD ONLY COME ON UNDERSTANDING THAT LOAN PROGRAM IS BEING DEVELOPED IN CONTEXT OF OUR TOTAL RELATIONS WITH PORTUGAL -- AND THAT RESPONSIBILITY FOR THESE RELATIONS RESTS WITH THE STATE DEPARTMENT AND THE PRESIDENT'S REPRESENTATIVE IN LISBON.
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